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INFO: Amembassy PARIS

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STATE 152255

SUBJECT: CIVAIR

1. At Italian insistence civil air talks were recessed March 8, to resume at Rome at time to be determined later. US del noted that discussion had concentrated principally on US route requests and urged at least preliminary discussion of other aspects of agreement to which we attach highest importance. However, Italians maintained that short break would permit both sides to reassess their positions and refused to be drawn into further discussion.

2. At March 6 session Italian del declared that route request tabled by US on March 3 was excessive since it included routes to East and South Africa and to ~~Australia~~ Australasia; also because countries rather than points specified, Italians still considered it impossible to evaluate US request. As counteroffer Italian del tabled paper that would give Italy routes already requested (State 144241) and would permit US fly present routes, plus traffic rights at Hong Kong and Bangkok; also Italy would consider Tokyo to permit US to "effectuate around-the-world service via Italy",

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for which there should be "analoguous grant in favor of Italian carrier." In explanation of paper Italians stated US carriers serve Italy from 11 points for which Italian carrier should receive some equivalence. While admitting that intermediates favored Italian carrier, suggested that US favored in beyonds and by high number of US points. Italians placed emphasis on US-UK agreement in which O & D points enumerated and repeatedly demanded that this agreement serve as model for US-Italian agreement.

3. At US urging Italian del presented figures on March 7 to illustrate imbalance in present agreement. Using 1965 figures stated US revenues on passenger traffic were almost $47.2 million and Italian revenues $37.7 million, thus imbalance some $10 million. US del accepted figures on revenues, noting however that we had substantially different figures on number and category of passengers presumably because of differing conceptual approaches to allocation passenger traffic amongst various freedoms. Corrected Italians on magnitude of imbalance by pointing out that Italian revenues from all cargo reduce imbalance to some $7 million. Noted discussions aimed at eliminating imbalance and that Italian route requests would create excessive imbalance in other direction. Italian del argued that large number of US intermediates and beyonds justify Italian request for 8 points in US. Complained, for example, that US and UK fly QTE hundreds END QTE of flights per week NY-London, whereas Alitalia limited (by UK) to nine flights on this segment.

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4. In effort to advance talks, US tabled route paper on March 8 which would give Italians Miami-Mexico-and beyond via points in Pacific to Italy, in addition to routes currently being served. Italians summarily rejected proposal on grounds they had asked for eight points in US and were being offered only four and had requested beyond from LA or San Francisco which was being denied them; also maintained that US offer tantamount to asking QTE Mexicans to pay bill US owes to Italy. END QTE. US del explained that we priced this route package at 65 million, based on historical values adjusted from 1965 to 1967, valuation new intermediate (Paris), and valuation Miami-Mexico and beyond, noting however that we had assigned low valuation to beyond Mexico ~~[illegible]~~ inasmuch as no historical data. Italians nevertheless insisted that talks be broken immediately pointing out that they had agreed to stay in Washington only three weeks. They refused enter any discussion other aspects of agreement.

5. In light [illegible] Italian attitude, US del reluctantly agreed to suspension of talks. Noted that Italian del had rejected US route offer out of hand and with no effort at confirming valuation. He reminded Italians that US had begun talks on subject of routes in light importance Italians attach to routes and had made several amendments in US route request in effort to find mutually acceptable routes package. Accomodating US attitude had not been reciprocated by Italians. US del noted that we are prepared to resume discussions in Rome on 9/1 routes, but will not leave until we have talked about other aspects of agreement. Reminded Italians that much work

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remains to be done before May 31, as US not prepared to continue air service between our two countries thereafter on basi~ contrary to principles we consider important. Italian del thanked US for acceding to Italians on recess and on resumption of talks on routes, recognized US concern over other aspects of agreement, and expressed hope that, once agreement reached on routes, other issues can be disposed before May 31.

6. Although nearly three weeks devoted to talks, practically all sessions spent on US route request. I~lians refused to be drawn into discussion their route request. Their attitude to date creates impression that Italians may believe time works in their favor, and that US will be obliged to accept agreement essentially on their terms in late May rather than see cessation of air service. Italians should not underestimate extent to which US will insist upon agreement that does not do violence to our principles. Embassy should take appropriate occasions to stress our desire for agreement equitable to both sides, and should note that we cannot enter agreement on terms Italians have indicated thus far.

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